



THE NATIONAL STRATEGY FOR SMALL AND MEDIUM ENTERPRISE SECTORS DEVELOPMENT IN SRI LANKA

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ABSTRACT

Small and Medium Enterprises (SMEs) show an essential part in any economy through generation of employments, contributing to the evolution of GDP, begin on inventions and inspiring of other economic events. This area is said to be the backbone of all developed and developing nations. When analyzing the current support of this sector in the national economy, it is clear that the sector has not achieved wanted level of involvement when compared with other developed and developing countries in the region.

Research Problem:

What are the specific factors/reasons for people or individuals to engage in Entrepreneurship/self-employment activity? Is it due to poverty that makes SME as a choice available to them? Or the government policy through its welfare or subsidy that provide some enforcement for local people to engage in self-employed small scale Industry activity. Also there can be many other background factors such as personal characteristics of individuals such as personal traits, skills and risk bearing ability for engaging in small business to achieve their economic development goals. Considering the above background this research is therefore focuses on exploring and examining the factors determining the formation and effectiveness of SME on economic development in Sri Lanka.

Objectives of the Study

To examine the factors determining the success of Small and Medium Enterprises (SMEs) in Sri Lanka,

To develop possible policy choices on how to enhance the success of SMEs in Sri Lanka.

Methodology

In our attempt to find the suitable methods for collecting the much needed information for our research one method is used. A qualitative analysis on previous researchers' methodology (Secondary data) is applied and then the experience gained from SMEs economics related research projects undertaken in Sri Lanka is used. It is important for the researcher to consider various research paradigms while deciding on the methods to be used in the study.

Conclusion

Having understood the positive impact of SMEs development on economic growth, and many countries are putting a lot of efforts to develop this vital sector. But the contribution of SMEs to the national economy in Sri Lanka is still low when compared with the other developed and developing countries in the region. Therefore, there is an urgent need to further improve the inherent capacities and capabilities of these industries to be efficient suppliers.

KEY WORDS: Small and Medium Enterprises in Sri Lanka, SME Policies in Sri Lanka, Economic Development, Entrepreneurship, Small Scale Industry.

Introduction

Small and Medium Enterprises (SMEs) account for 80 -90% Of the total number of enterprises in Sri Lanka and contribute 30% in terms of value added and account for 32.7% of the employment from Agricultural sector, 26.3% of the employment from Industrial sector 41.0% of the employment from Services sector. Also 75% of SMEs are located outside the relatively prosperous Western Province. (SME White Paper 2002) The Mahinda Chinnana Plan (2006-2016), the current framework for macroeconomic policy, strives for the development of a competitive, innovative and technologically strong SME sector, capable of meeting the increasing demands of globalization and intensifying competition. In this vision, policy framework consists often policy initiatives has been designed and it contains SMEs sector development. As for SMEs development policy, entrepreneurship development, promotional measures on enterprise support services (BDS service), enhancement of competitiveness, and development of micro enterprises were emphasized. The SMEs sector has great potential to generate substantial employment opportunities particularly in the informal sector. The promotion of SMEs sector forms an integral part of poverty alleviation and regional development programs implemented by the Government and non-governmental organizations. Furthermore, the SME sector provides value addition in view of its greater utilization of indigenous machinery, equipment and raw materials. SMEs nurtures entrepreneurial talents and forms good ground for training employees. Actually, SME's importance and contribution in the economic activity suggests that there is a significant potential to enhance their growth through appropriate regulations and promotion. On the other hand, the SME sector does not come within the purview of a single ministry. The different ministries involved have uncoordinated programs and this limits their ability to support the sector or address the core constraints inhibiting the growth of the sector. One of the important objective of the national strategy for SME development in Sri Lanka is to create an enabling business environment for SMEs in Sri Lanka. The White Paper on SME (2002) provides the requirements for this enabling environment for the achievement of a broad based, resilient and internationally competitive SME sector. It has also set in place policies and programs to further

develop and integrate SMEs with various subsectors of the national economy and global markets. On the basis of the background above mentioned, SME policy is divided into five Pillars as follows; Entrepreneurship development, enhancement of competitiveness, promotion of regional economy, creation an enabling business environment and development of micro sectors.

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Objective

1. To examine the factors determining the success of Small and Medium Enterprises (SMEs) in Sri Lanka,
2. Create an environment for SMEs in Sri Lanka to meet the challenges of an internationally competitive economy
3. Stimulate economic growth
4. Improve income and wealth generating opportunities for low-income groups
5. Minimize the imbalance between large-scale enterprises and SMEs

6. To develop possible policy choices on how to enhance the success of SMEs in Sri Lanka.

National Strategy and policy of SME in Sri Lanka

The most important objective of the national strategy is to create an enabling environment for SMEs in Sri Lanka. Under the right conditions, entrepreneurs of SMEs will increase in number and the size of their enterprise will expand. Moreover, the creation of an enabling environment makes the best use of scarce resources because it affects a very large number of SMEs and provides high returns on the government's development efforts. Coordination between a range of Ministries, regional authorities and local agents will be necessary to achieve the national strategy objective. Also, it will require the strategy to be integrated into national policy in other sectors. For example, a national integrated strategy for SMEs must be coordinated with sectors such as education, labour, tourism, trade and commerce and regional planning, to name but a few. The objectives of an integrated national strategy for SMEs also imply that it fits with the overall thrust of economic policy. It moved early on to liberalize its trade regime and is currently poised to liberalize further its factors of production land, labour and capital. The above key objectives that can be identified as part of a national strategy.

Prepare SMEs to meet the challenges of an internationally competitive economy. A key consideration in creating a conducive business environment is the need for domestic SMEs to be able to compete against imports or enter international markets. Under an increasingly liberal trade regime and deregulated global economy it is necessary for SMEs to be internationally competitive. In many cases domestic SMEs have an inherent advantage operating in the domestic economy. The cost of transport and the regulatory requirements for imports means that small local firms at the site of their market have a natural advantage. This is particularly true for products that have a high ratio of transport cost to unit cost. It is also true for local firms producing perishable goods and located close to their markets. Such an advantage needs to be enhanced through the creation of an enabling environment. The recent development of a national cleaner production strategy is an example of how government agencies can improve the international competitiveness of SMEs. By applying clean production techniques, businesses are better able to make use of existing resources. In some cases, being certified as using cleaner production provides greater access to international markets.

Stimulate economic growth. SMEs are a key part of the national economy. In the earlier parts of this report it was estimated SMEs provided a significant contribution to GDP. At an individual level, SMEs provide goods and services for a large part of the population. Moreover, SMEs respond quickly to growth-oriented initiatives by creating employment opportunities and income generating activities in different sub-sectors of the economy.

Facilitate competition and cooperation among entrepreneurs.

Competition is beneficial both to the SME sector and consumers. Strong and fair competition creates industries that can withstand sudden change. It also reduces costs of production, which benefits consumers and enhances overall productive efficiency of the national economy. Cooperation among small businesses should also be encouraged. Clusters of small businesses working closely together can overcome the size disadvantage. There is now an extensive literature on the advantages of clustering with case studies from Germany, Italy, Indonesia, Brazil and many other countries. Both competition and cooperation require a stable and predictable business environment.

Foster long-term quality employment. A key contribution made by SMEs is the substantial number of people employed across all districts of Sri Lanka. In particular, SMEs employ a significant number of workers outside the Colombo region. One challenge for SMEs is to improve the quality of their employment. A crucial component for improving workers' conditions and remuneration is increasing the skill levels and strengthening the use of appropriate, modern technologies.

Minimize the imbalance between large-scale enterprises and SMEs. In the past, market opportunities, regulations and competitive structures have favoured large enterprises and those located in the major urban centers, particularly those in and around Colombo. Therefore, an objective of a coherent integrated national strategy will be to redress these discrepancies. Moreover, the aim will also be to maximize the cooperation between large-scale enterprises and SMEs. Such cooperation should be encouraged based on a principle of mutual advantage for large and small enterprises.

Improve income and wealth generating opportunities for low-income groups. It is now widely recognized by multi and bi-lateral agencies that the promotion of SMEs is an effective strategy for reducing the incidence of poverty and improving opportunities for wealth and income generation among low-income groups. Therefore, an important objective in promoting national development and a just and equitable society is to increase the opportunities available to low-income groups for improving their conditions. To carry out the above objectives of the national strategy for SMEs, there must not only be a Ministry identified and dedicated to implementing it, but there should also be a capacity within this Ministry for the planning and implementation of such a strategy. Thus, the key implementing Ministry would have to develop that appropriate analytical and

policy capacity.

The government plays an important role in the SME sector. The primary role of the government in the SME sector is one of facilitation rather than direct intervention. A facilitating role exists both in creating a regulatory environment conducive to business and in the delivery of BDS and finance. Such a role is played by all levels of government with business orientation and supported through on going public sector reforms. One important aspect of creating an enabling environment includes the removal of 'unnecessary' legislation and regulations.

In general, the regulatory environment needs to be transparent, predictable, stable and consistent, and timely in implementation. Overall, the economic environment, comprising policies, regulations and institutions needs to engender an environment of trust in which businesses can compete and cooperate. Similarly, the government can encourage the private sector, through market-based incentives and the regulatory framework, delivery of BDS and credit targeted at SME

Private sector institutions, NGOs and Donors play an important role in implementing a national vision and strategy for SME development. The government recognizes that for an effective strategy there is an important role to be played by a range of agencies outside of the Government. The implementation of a national strategy will require the cooperation of Chambers of Commerce and Industry, NGOs and donor agencies. Partnerships and networks will need to be developed and strengthened in achieving the vision for the SME sector.

Methodology

Research methodology describes the procedures to be followed in realising the aim and objectives of the research. However, conducting qualitative research is not considered to be an easy task after all. Denzin and Lincoln (2008) warn that a complex, interconnected family of terms, concepts, and assumptions surround the term 'qualitative research'.

The qualitative research methodology followed by this study was used to gain insight into the construction SMEs attitudes towards the sector within which they trade, their behaviours, their value systems [to the extent where this was possible], their concerns, their motivations and aspirations. All of these, the study concluded that they inform the business decisions which the SMEs make, how they craft their business strategies, how they then communicate these and how they conduct further research into what would be required to grow their entities.

Secondary data was used to lay a theoretical foundation for the study. These included published and unpublished books, theses, journals and conference papers relating to small contractor development, business competitiveness and performance enhancement tools.

In writing this paper the researchers principally used existing literatures and record relevant to the subject matter of this paper. Using deductive approach, the researchers were able to draw conclusion having critically reviewed salient issues in existing literatures and records. This method was adopted because time would not permit the use of questionnaire which ordinarily has to be administered to a sizeable number of small and medium scale Enterprises, relevant government agencies, conventional banks, specialized banks as well as micro finance banks across the country. However, reviewing related works by other researchers gave a deeper insight to the researchers which enabled us to draw reasonable conclusion.

As Sri Lanka aspires to become a higher middle-income country, it will need to adjust its development model. Growth in the last five years is in substantial part due to a "peace dividend". Going forward, economic growth will likely require continued structural changes towards greater diversification and productivity increases and a reduction in the role of agricultural employment from its present share of a third of the population. Although Sri Lanka has excelled in overcoming human development challenges typical to a low-income country, its service delivery systems in education, health and other areas must now adjust to face new and changing demands typical of a middle income country. To accommodate these increasing demands, the government needs to increase fiscal revenues in the medium term, which at present is low vis-à-vis its own historical standards as well as international standards. Imperatives to improve social safety nets will increase owing to an aging population that has passed its demographic peak. Finally, increasing affluence and information will lead to higher expectations for the state to perform in order to facilitate growth, provide a higher level of services, and demonstrate increasing responsiveness to a more demanding citizenry.

Taking cognizance of the changing development priorities, the government policy statement presented in November 2015 envisioned promoting a globally competitive, export-led economy with an emphasis on inclusion. It identified generating one million job opportunities, enhancing income levels, development of rural economies and creating a wide and strong middle class as key policy priorities. The policy statement proposed reducing the fiscal deficit to 3.5 percent of GDP by 2020. Also, it discussed far reaching reforms with a view to improve performance of the SOE sector and enhance trade and FDI.

The World Bank has provided long-term funding for SMEs as well as technical

assistance to support capacity building efforts in the banking sector to improve the SME lending culture in the country.

The following have been achieved as of June 31, 2014:

- A total of 552 active loans (against a target of 560);
- Cumulative disbursements of sub loans amounting to \$24.3 million;
- More than 8,680 SMEs and 6,834 commercial bank staff have been trained;
- An estimated 4,546 potential new employment opportunities created.

Conclusion

SMEs play very important role in both developed and developing countries. Their importance is reflected by the many of establishments, employments, also to the GDP, getting on innovations, stimulating of other economic activities etc. Having understood the positive impact of SMEs development on economic growth, many countries are putting a lot of efforts to develop this vital sector. In Sri Lanka too, successive governments have taken various steps to develop SMEs since independence. But the contribution of SMEs to the national economy in Sri Lanka is still low when compared with the other developed and developing countries in the region. Therefore, there is an urgent need to further improve the inherent capacities and capabilities of these industries to be efficient suppliers. In order to bring this sector to that position, the role that the government has to play is very important. First of all it should have a national policy on SMEs. In order to formulate a national policy, it should recognize the importance of facts such as having a clear definition for SMEs, expanding institutional support, giving incentives, assistance and tax concessions are imperative. Further, creating an inter-industry linkage and establishing funding institution such as Enterprise Development Bank who provides seed capital to SMEs at lower interest rate and which has easy access are very important. Finally, in a broad perspective, it is imperative to change the curricular to give impetus to entrepreneurship through general, technical and vocation education in Sri Lanka.

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